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SRI LANKA

# Altered Images

the 2003 state of corporate responsibility



Ritu Kumar  
David F Murphy  
Rochelle Mortier  
Chandana Rathnasiri  
Lalith Gunaratne

Understanding and Encouraging Corporate Responsibility in South Asia  
Update 2

**T**ERI-Europe and the New Academy of Business have been working with various partners on an initiative to understand and encourage corporate responsibility across South Asia. The initiative seeks to raise awareness and stimulate a proactive corporate responsibility agenda in three South Asian countries—Bangladesh, India, and Sri Lanka. The partners are the Centre for Policy Dialogue (Bangladesh), TERI (India), and LGA Consultants (Sri Lanka). The project is funded by the Asia Division of the Department for International Development, UK.

Our vision is to contribute to a positive change towards business practices and attitudes that support sustainable development and poverty eradication in the region. The focus is on expanding the knowledge base of corporate practices in South Asia relating to working conditions within factories; living conditions in surrounding communities; environmental protection; and corporate accountability and transparency. In this way, we aim to provide useful information and tools (such as training materials) for South Asian companies and civil society

groups, especially the more vulnerable income groups, in the three countries. We hope that this will assist in eventually elaborating a home-grown agenda of corporate responsibility sensitive to the social, cultural, and economic situation in Bangladesh, India, and Sri Lanka.

This report presents the results of the initiative's second activity—an agenda-setting survey on corporate responsibility in Sri Lanka. The survey explored the views and expectations of workers, company executives, and civil society groups towards the social, economic, and environmental responsibilities of companies operating in Sri Lanka. It was the first to include workers in a survey on corporate responsibility. The survey was carried out in 2003 through a partnership between TERI-Europe, LGA Consultants, and the Sri Lanka Business Development Centre in Colombo. The results presented in this report are intended to provide a better understanding of attitudes and practices and develop targeted training materials for company executives, workers, and community representatives.

# Understanding and Encouraging Corporate Responsibility in South Asia

Update Two: Sri Lanka

## Altered Images the 2003 state of corporate responsibility

Ritu Kumar  
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# 1 Understanding corporate responsibility in Sri Lanka

**C**urrent business perspectives and practices in Sri Lanka are products of both the island's colonial trading past as well as its present turbulent political circumstances. Commerce in Sri Lanka is rooted in a long history of international trade with its former colonial powers – the Portuguese, the Dutch, and the British – as well as with neighbouring Asian countries. Private companies were formed in the early part of the 18th century, and Sri Lanka's stock market was set up in the latter half of the 1800s. Sri Lanka has around 240 companies currently listed on the Colombo Stock Exchange and can be compared – at least in scale – with Bangladesh (around 208 listed companies).<sup>1</sup> Employment in the private sector is just under half of

the total employment (47.8%). On a sectoral basis, the service sector is the largest sector for employment (42.6%), while the agriculture sector accounts for 32.4%, and industry for 25.7%.

The Sri Lankan private sector has not always enjoyed government encouragement and public support. In the 1960s and the early 1970s, large numbers of private companies and foreign-owned enterprises, across all sectors, were nationalized. Large industrial companies, for example in the steel and cement sectors, as well as tea plantations and newspaper publishing concerns fell under government ownership and management. In 1977, with a new government in place, the corporate sector was given the impetus to act as an engine of economic growth in

<sup>1</sup> Details at <<http://www.bangladeshcapitalmarket.com/>>, last accessed on 15 March 2004



a bid to create a liberal, market-driven economy. This ambition was however short-lived, as Sri Lanka slipped into a state of ethnic civil war in the early 1980s. By the end of the 1990s, official estimates put the number of lives lost due to the war at around 60 000. While the war has been mostly confined to the north and the east of the island, its impact on the corporate sector has been significant due to the inherent political and business risk. It is then perhaps unsurprising that the Sri Lankan corporate sector tends to be cautious and conservative.

Sri Lankan society is highly politicized and there is a general public perception of the private sector being exploitative. Recent large-scale privatization on the island – such as that of bus services – has resulted in companies being accused of ‘cherry-picking’ the profitable routes and services. Those routes that are deemed unprofitable are left with either a low level of service or no service at all. With this experience of recent private sector development, the public is sceptical of change and mistrusts the motives of business. People generally do not expect companies to engage in

socially responsible practices. The majority of Sri Lankans can hardly envisage environmentally sustainable initiatives, human rights protection, and gender equality being integrated into business practices.

### Four models of corporate responsibility

The four models of CR (corporate responsibility) outlined here illustrate the evolution of the business model, as well as the ways in which businesses have viewed and engaged in social responsibility within South Asia.

#### Ethical model

The origins of the first ethical model of CR lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers<sup>2</sup> in England and the Tata family in India. The pressure on Indian industrialists to demonstrate their commitment to social progress increased during the Independence movement, when Gandhi developed the notion of trusteeship, whereby the owners of property would voluntarily manage their wealth on behalf of the people.

---

<sup>2</sup> John and Benjamin Cadbury, brothers from Birmingham, pioneered the development of chocolate around 1847.

*I desire to end capitalism almost as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no makeshift, certainly no camouflage. I am confident that it will survive all other theories.*

Gandhi (1939),  
cited in Bose (1947)

In Sri Lanka, there is little evidence of such corporate philanthropy in the early 20th century. Philanthropy tended to be directed towards religious causes by philanthropists who were also owners of companies. These wealthy families tended to donate money for the renovation of Buddhist places of worship. An example of this was the renovation of the Kelaniya Temple with funds donated by the Wijewardene family.

### Statist model

A second model of CR emerged in India after Independence in 1947, when India adopted the socialist and mixed economy framework with large public sector and state-owned companies. The boundaries

between the state and society were clearly defined for the state enterprises. Elements of CR, especially those relating to community and worker relationships, were enshrined in labour law and management principles. Sri Lanka broadly followed the same political evolution around this time, and this model prevailed until the change of government in 1977.

### Neo-liberal model

Indeed, the global trend towards privatization and deregulation can be said to be underpinned by a third model of CR—that companies are solely responsible to their owners. This approach was encapsulated by the American economist Milton Friedman,<sup>3</sup> who in 1958 challenged the very notion of CR for anything other than the economic bottom line.

*If anything is certain to destroy our free society, to undermine its very foundation, it would be a widespread acceptance by management of*

<sup>3</sup> Recipient of the 1976 Nobel Prize for Economic Sciences, Friedman is widely regarded as the leader of the Chicago school of monetary economics, which stresses the importance of the quantity of money as an instrument of government policy and a determinant of business cycles and inflation. Friedman has also written extensively on public policy, with emphasis on the preservation and extension of individual freedom.

*social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine.*

Friedman (1958)

Many in the corporate world and elsewhere would agree with this concept, arguing that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can then be directed towards social ends.

The Sri Lankan corporate sector has not opened up in any significant sense towards philanthropic giving and wider social responsibility. This is possibly due to a lack of initiatives to educate and raise local awareness of the possibilities in these areas. It is also partly a result of an inherent conservatism in the private sector, which mostly resembles the neo-liberal approach to CR.

Sri Lanka is a predominantly Buddhist society. Nearly 70% of the population is Buddhist; philanthropy, or

the Buddhist concept of *dhana*, is an integral part of life on the island. The religious model would suggest that local shareholders of firms should engage in philanthropy. However, this rarely happens in practice. Most Sri Lankan corporates are also not aware of the more secular, humanitarian reasoning, which underpins CR, or of the growing international trend towards a stakeholder mindset.

### Stakeholder model

The rise of globalization has also brought with it a growing consensus that with increasing economic rights, business also has to face up to its social obligations. Citizen campaigns against irresponsible corporate behaviour, along with consumer action and increasing shareholder pressure, have given rise to the stakeholder model of CR. This view is often associated with R Edward Freeman,<sup>4</sup> whose seminal analysis of the stakeholder approach to strategic management in 1984 brought stakeholders into the mainstream of

<sup>4</sup> Pioneer of the stakeholder and 'business ethics' concept in the context of corporate responsibilities, Freeman developed a framework for identifying and managing the critical relationships of the modern corporation. His conceptual crystallization of stakeholder analysis has become a staple of both academic writing and business academic models. Freeman's contribution to education at the intersection of business and society is also extensive. He has won numerous teaching awards and is well known for his innovative approach to pedagogy.

management literature (Freeman 1984). According to him, 'a stakeholder in an organization is any group or individual who can affect, or is affected by, the achievement of the organization's objectives'.

However, it was not until the 1990s that the idea of the stakeholder corporation gained prominence in business practice. David Wheeler and Maria Sillanpää (formerly with The Body Shop) captured the essence of the stakeholder model in the following statement.

*The long-term value of a company rests primarily on: the knowledge, abilities and commitment of its employees; and its relationships with investors, customers and other stakeholders. Loyal relationships are increasingly dependent upon how a company is perceived to create 'added value' beyond the commercial transaction. Added value embraces issues like quality, service, care for people and the natural environment and integrity. It is our belief that the future of the development of loyal, inclusive stakeholder relationships will become one of the most important determinants*

*of commercial viability and business successes.*

**Wheeler and Sillanpää (1997)**

The experience of the past decade has served to reinforce this viewpoint. With companies facing increasing scrutiny in the global economy, the CR agenda now encompasses a wide range of issues including provision of product quality, safe products at fair prices, ethical business practices, fair employment policies, and environmental performance. In addition, there is increasing focus on the growth of corporate power and therefore the need for greater accountability and transparency to society, for example through reporting, corporate governance, and stakeholder dialogue.

Indeed, there is a growing consensus throughout the world that companies need to go beyond their traditional 'economic' roles; the following analysis from the Centre for Development and Enterprise in South Africa aptly demonstrates this.

*It is in the interests of the corporation and the business sector as a whole to become more self-conscious social actors. Both the individual firm and the voluntary*

*business association need to think hard and strategically about their role in society, and their relationships with government and others. To do anything else is counter-productive.*

Bernstein and Berger (2000)

The evidence on CR in Sri Lanka suggests that a neo-liberal model of CR is prevalent. However, this needs to be qualified and tempered against the reality that there is a lack of knowledge and understanding of the broader definition of CR.

CR is a novel concept for Sri Lankan companies, employees, and

civil society. Most companies perceive CR as sponsorship of sporting activities, donations to charities, and other social service activities. The main exception is in the garment industry, where there is some evidence of companies championing broader CR values and practices. The garment industry is also Sri Lanka's largest export sector, comprising around 52% of total export earnings. The broader CR agenda is also practised and aspired to in a few local subsidiaries of MNCs (multinational corporations). ☞

## 2

## Corporate responsibility in Sri Lanka 2003: a snapshot

TERI-Europe commissioned LGA Consultants Ltd to conduct an initial survey of the state of CR in Sri Lanka. The Sri Lanka Business Development Centre carried out the survey.<sup>5</sup> It was designed to capture the experiences and perceptions of CR practices from the following three sets of stakeholders.

- **Workers of companies** in the sectors of tea and other plantations, garments, ceramics and tiles, shoes, financial services, food, telecommunications, pharmaceuticals, fertilizer, tobacco, energy, leather, construction, and travel and tourism
- **Company executives and managers** from the above sectors
- **Civil society groups** representing the interests of child labour,

child abuse, domestic violence, environment, and anti-tobacco and alcohol production.

The survey was carried out in Colombo, where the largest concentration of corporate entities in Sri Lanka is located. The poll surveyed 150 employees, 70 company managers, and 16 public representatives.

The survey provides an overview of company practices as well as employee and civil society experiences and perceptions of CR. It attempts to register factors that influence the *opinions* of companies as well as those that shape *expectations* of CR. A summary of the main findings is provided here.

<sup>5</sup> More on the Sri Lanka Business Development Centre at <<http://www.slbdc.org>>, last accessed on 15 March 2004

## Main findings

### *What are the key drivers for corporate responsibility in Sri Lanka?*

The few Sri Lankan companies that have recently adopted socially responsible practices have done so mainly to meet the requirements of international buyers of goods produced in Sri Lanka. The formal requirements for CR practices, especially in terms of working conditions and worker welfare, act as strong signals for Sri Lankan corporates interested in doing business in international markets. Sri Lankan corporate practices are also increasingly under greater scrutiny by international NGOs. International and local reporting of abuses of labour practices and human rights are now more widespread. International NGOs are mainly responsible for making Sri Lankan corporate practices transparent to an international community, that is keen to drive sound business principles in a globalized world. There is also evidence of a small number of local companies that are taking a proactive approach to world-class CR.

The increased social consciousness of Western civil society,

brought about through high-profile cases of corporate exploitation, has been a strong impetus for companies to focus on CR practices. This has placed pressure on local subsidiaries of international MNCs to be more accountable and responsible. One sector where this is increasingly evident is the garment sector in Sri Lanka. Here, companies tend to perform better on CR practices relative to other sectors, due to their mainly export-oriented business models and accelerated scrutiny and standard setting by their parent companies. An example of this is Slimline, a garment manufacturer set up in 1993 with international partners and brand name customers. Slimline's CR practices, specifically in redefining mutually beneficial relationships between (1) the management and the workers and (2) the management and the community, helped mitigate a critical situation with a previously politically charged labour force and dissatisfied local community. One of the main drivers for change was the pressure levied by international clients and partners to improve worker welfare and working conditions in their supply chain (Kumar, forthcoming).

### *Are corporate responsibility policies and practices consistent in Sri Lankan companies?*

In general, most Sri Lankan companies surveyed had written mission statements. These statements, however, tended to be – for the most part – cosmetic in nature. The majority did not include a statement of commitment to stakeholders. Over 70% of the companies stated that they did have a code of conduct, business principles, and ethics but most were either unwilling or unable to provide evidence of these. Around 70% also stated that training on ethical practices was available for employees, but again no evidence could be provided to support this. It was evident that most companies surveyed did not understand the importance of having a set of publicly available principles to guide their corporate behaviour.

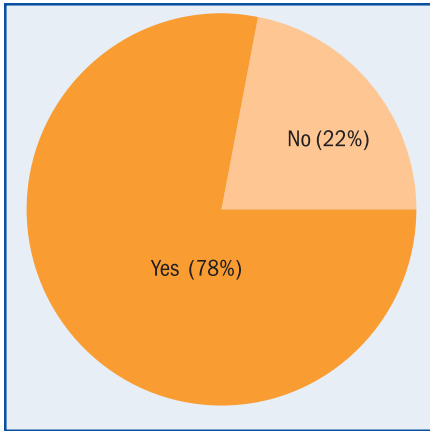
On the specific issue of corruption and political patronage, more than 75% of the firms surveyed did not have any policy statement. Only one firm complied with the guidelines set out for good practice by Transparency International. Good governance is understood locally in a narrow sense, comprising the corporate governance rules set by the Institute of Chartered Accountants

of Sri Lanka, together with the Sri Lankan Chamber of Commerce. This is, however, a limited commercial and financial view of governance, which is used mainly to mitigate fraud and financial risk, and to effect accountability.

The majority of firms surveyed also indicated that they do not support political funding. However, despite this overwhelmingly negative response, it is well known that Sri Lankan companies generally do fund political parties. It would appear that these companies do not wish to disclose their relationships or affiliations with various political parties.

About 78% of the firms (Figure 1) surveyed acknowledged their social responsibilities as employers, and this is evident in their mission statements and annual reports. It appears customary for an employer to express commitment to social responsibility in annual reports and other company publications. However, only 28% of companies conduct employee satisfaction surveys and there is little evidence to suggest that employee views are incorporated into corporate policies. Policy-making tends to be the domain solely of top management. This is characteristic of the rather





**Figure 1** Acknowledging social responsibility as an employer

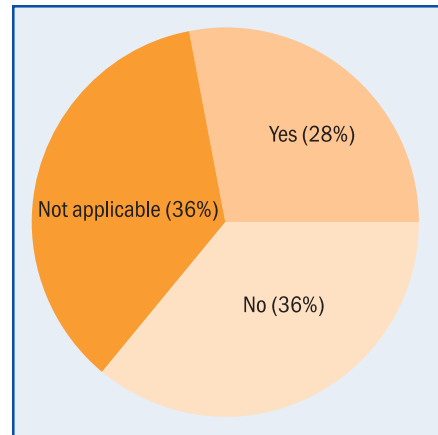
feudalistic management style that appears to have been adopted by some senior executives in Sri Lanka.

*Are best practices and international standards taken into account?*

Over 70% of the companies surveyed do not adhere to any national or international benchmark on best practices, corporate governance, safety measures, waste treatment, and so forth (Figure 2). There are no formal means for inter-firm comparison and benchmark development. This lack of local enthusiasm for sharing information and working collectively may be due to

the strong preference for confidentiality and the not insignificant local inter-firm rivalry and competition.

Around 80% of the companies surveyed are not members of a local or international business association that would set standards or guidelines for business conduct. Just three companies surveyed stated that they followed international guidelines in designing labour policies. Two followed the charter of international labour initiatives, which is a requirement for ISO (International Organization for Standardization) certification, and one followed the guidelines set by the Fair Labour Association.

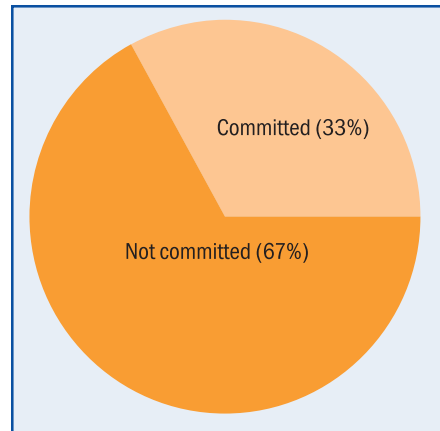


**Figure 2** Conformity to national or international benchmarks

A significant number of firms surveyed have won national and international awards for performance. These include the Green Globe Certification awarded to Aitken Spence Ltd, the Best Factory in South Asia honour awarded to Unichella Garments, and the Visa Card Award to HSBC. Seylan Bank (Sri Lanka) was a runner-up in the corporate social responsibility award in the field of poverty alleviation—the first Asian award in this field given by the Asian Institute of Management.<sup>6</sup>

### *Are labour rights established and enforced?*

Only 33% of the sample agreed that they have a commitment to the Universal Declaration of Human Rights and to international labour standards (Figure 3). Most companies do not understand that human rights are a core component of the broader corporate social responsibility agenda. Around 46% of companies have a publicly available corporate framework for human resource management that includes labour standards, employee relations, communication, training, health and safety, and equal opportunities. The rules and policies of most companies



**Figure 3** Commitment to the Universal Declaration of Human Rights and to international labour standards

do not apply to part-time or temporary staff.

About 38% of the surveyed firms have a strategy to implement labour policies and carry out audits to check whether implementation is effective. About 40% have a board member responsible for implementation. Around 54% develop targets and procedures for policy implementation, although, in most cases, sufficient resources are not made available for proper policy implementation. Half of all surveyed

<sup>6</sup> Details at <<http://www.aim.edu.ph/home/announcement.asp?id=425>>, last accessed on 15 March 2004

companies report on their labour practices. However, just one of the 50 firms surveyed conforms to SA 8000, the auditable international standard for companies seeking to guarantee the basic rights of workers [SA stands for social accountability].

Almost all companies stated that they do not engage in unfair dismissals. However, there is considerable evidence in the media and employee protests, that some firms have been party to cases of unfair dismissal. Only 16% of the companies stated that they had faced major legal disputes relating to labour policies and practices.

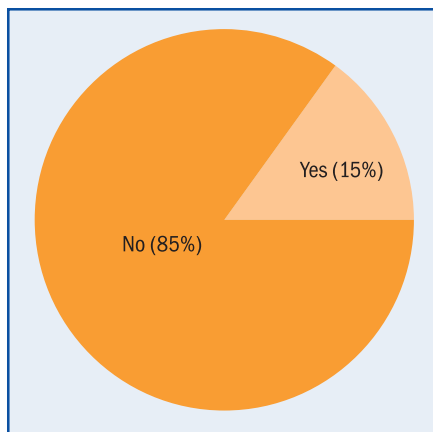
Local labour laws are comprehensive in attempting to protect employees. However, the cost of litigation is prohibitive for most. In addition, a culture of corruption ensures that officers of various employee benefit organizations, such as the Employment Provident Fund or the Employment Trust Fund may, sometimes, be open to bribes, in order to avoid legitimate cases being subject to legal process. The serious problems surrounding litigation in Sri Lanka are pervasive, not only in the area of industrial relations, but also in civic life, and impede the enforcement of law and the safeguarding of the rights of employees.

Representatives of labour unions belonging to India, Pakistan, Bangladesh, and Sri Lanka have resolved to set up a labour commission of the South Asian region to monitor the enforcement of labour rights (Mishra 2003). This reinforces the resultant view of this survey, that there is a problem with enforcement. External enforcement through the legal process as well as holding firms accountable through other means, such as adverse publicity and lobbying, appears to be low.

### *Are worker health and safety properly prioritized?*

There is a relatively higher commitment to health and safety in the workplace, compared to other labour-related policies. As many as 85% of the firms believe that they provide clean, healthy, and safe working conditions (Figure 4). Also, 70% have reported that they provide proper training on health and safety to their staff, while 64% claim to have adequate procedures for implementation. The surveyed employees echoed this view; most believed that health and safety systems were monitored regularly and enforced.

Training on health and safety is mainly aimed at workers on the



**Figure 4** Maintenance of good working conditions

shopfloor and covers fire drills, explosions, toxic emissions, burns, and wounds. Managers and supervisors in some firms are trained in procedures to deal with explosions and terrorist attacks. However, only around one-third of the companies audit the implementation of health and safety procedures and policy. Very few firms report on health and safety incidents, and most are not aware of benchmarks that could be set in this area. One company response to the question of external reporting was that there was no need for external reporting as action was taken immediately. The need to report, measure, and effectively manage health and safety

issues appears, in some cases, not to be understood.

Only four of the surveyed firms appear to formally report accidents publicly. Some take prompt action as laid down by the Workmen's Compensation Act, and some report accidents internally to the top management. The common understanding is that most cases are settled through informal means (commissions, bribes, etc.) without public disclosure. Around 22% of the firms were subjected to fines and prosecutions, indicating that some form of legal process is available and the law is enforced to some degree. Around 25% of the firms had faced civil suits.

### *Is there evidence of child labour or gender and racial discrimination in the workplace?*

Child labour is prohibited by legislation in Sri Lanka. Large companies generally do not employ children aged under 14 years. Employment of children as domestic servants is also prohibited by law; while there is general awareness of this, children are sometimes employed in some households.

There is evidence of both gender and racial discrimination in the workplace in Sri Lanka. Although a

relatively high proportion of companies surveyed (63%) have policies to ensure equal opportunities (Figure 5), covert discrimination exists. Around 56% of the employees surveyed believed that their companies preferred to employ women only from a certain age group, while 90% disagreed with the statement that their company preferred not to employ women. Women tend to be discriminated against in certain companies and sectors, especially those requiring employees to work late evening shifts. However, in the garment industry, women comprise

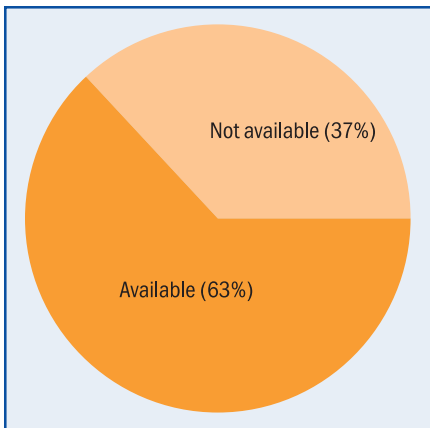
the majority of the workforce, and companies such as Slimline have implemented progressive practices to support female staff by encouraging equality and supporting and addressing gender differences.

To contextualize gender discrimination, certain gender-related statistics for Sri Lanka are helpful. Women comprise 37% of the total labour force of 8 million.<sup>7</sup> The unemployment rate for women stands at around 16% compared to nearly 10.6% for men. The adult illiteracy rate for women is 11% compared to 5.6% for men.

Discrimination on the basis of race, social origin, school, and political affiliation is pervasive in Sri Lankan society, and is generally reflected in the workplace. Companies with ownership and management from a particular ethnic group tend to hire employees from the same ethnic group. They do not actively seek to encourage diversity through their recruitment policies.

### *Are workers paid satisfactory wages?*

All firms state that their remuneration policies are fair. However, worker demonstrations and union



**Figure 5** Policies for equal opportunity

<sup>7</sup> Details at <<http://devdata.worldbank.org/genderstats/genderRpt.asp?rpt=profile&cty=LKA,Sri%20Lanka&hm=home>>, last accessed on 15 March 2004

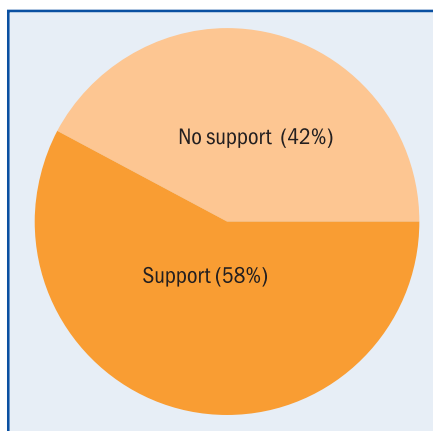
action and protests suggest otherwise. There can be wide variation in wages by industry sector. In Sri Lanka, there is no single national minimum wage.<sup>8</sup> The Wages Board Ordinance regulates wages and other payments for persons employed in 39 different trades and sectors. The current minimum monthly wages for the garment manufacturing trade, last increased in April 1998, are 2000 SLR (Sri Lankan rupees) (~29 dollars) for trainees and helpers, 2525 SLR (~36 dollars) for unskilled workers

(first year), and 2575 SLR (~37 dollars) for sewing machine operators and iron operators (first year). In most cases, the minimum wages are too low to attract workers, and firms need to pay wages higher than the stipulated minimum. The employees surveyed were mostly happy with wages, overtime pay, and labour conditions.

*Are employee human rights adequately safeguarded in the workplace?*

There is evidence that the rights of employees to join trade unions, not to work overtime, and to be safeguarded from sexual, physical, or mental harassment are compromised in Sri Lanka in varying degrees (Figure 6).

In Sri Lanka, almost all leading trade unions are affiliated with the main political parties of the country, and operate on a political agenda rather than on a company-specific, work-oriented remit. Sri Lankan employers therefore tend to view trade unions as a problem, and trade unionism as a vehicle for worker association is rejected and actively discouraged by companies. In July 2003, a case made legal

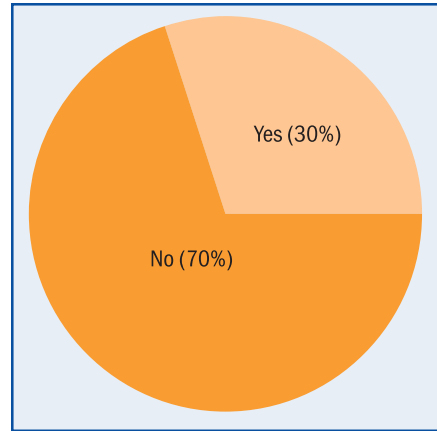


**Figure 6** Support for trade union activities

<sup>8</sup> Details at <<http://www.dol.gov/ILAB/media/reports/oiea/wagestudy/FS-SriLanka.htm>>, last accessed on 15 March 2004

history in Sri Lanka when a referendum was held at Polytex Garment Industries, to decide on the eligibility of a trade union to represent the workers. As many as 82% of the workers voted in favour of such representation. The concerned trade union was considered not to represent any party or political affiliation (SLDN 2003). In July 2003, the ILO (International Labour Organization) made a formal complaint to the Sri Lankan government regarding violations of the principles of freedom of association and the right to collective bargaining. The case concerned the Jaqalanka Ltd factory where the management and others, including Sri Lanka's Board of Investment, are alleged to have intimidated workers during the weeks preceding an election, to determine whether the union had 40% membership and could therefore be recognized as a collective bargaining agent (ILO 2003).

Only 30% of the surveyed firms have a policy to prevent sexual, physical, or mental harassment of staff (Figure 7). Although the lack of policy does not necessarily mean that violations take place, there is some evidence to suggest that harassment does take place and that these incidents are not reported due to the staff's fear of losing their jobs.

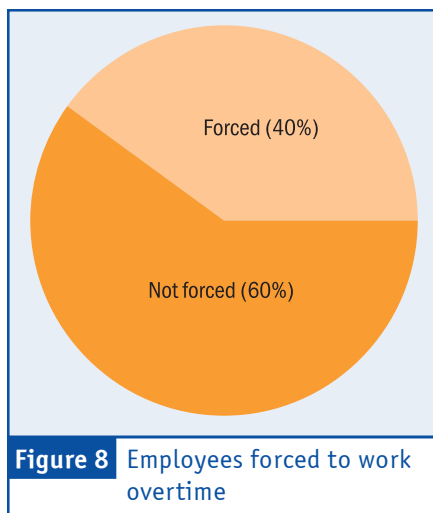


**Figure 7** Policies to prevent harassment

Sexual harassment of Sri Lankan migrants, domestic workers, and workers employed in the plantation sectors and free trade zones was highlighted in an ILO statement in September 2003, when the director of the ILO's Colombo office launched a code of conduct and procedures, which would address sexual harassment in the workplace in Colombo (Kannangara 2003).

Most permanent full-time workers are covered by laws that prohibit them from regularly working more than 45 hours per week (a five-and-a-half day workweek). Although all the firms surveyed agreed that they conform to working time legislation, 40% force their employees to

work overtime (Figure 8). While this is illegal, companies tend to prey on their employees' fear of losing their jobs to enforce overtime work. This is particularly prevalent in export-oriented companies struggling to meet delivery and shipping deadlines.



**Figure 8** Employees forced to work overtime

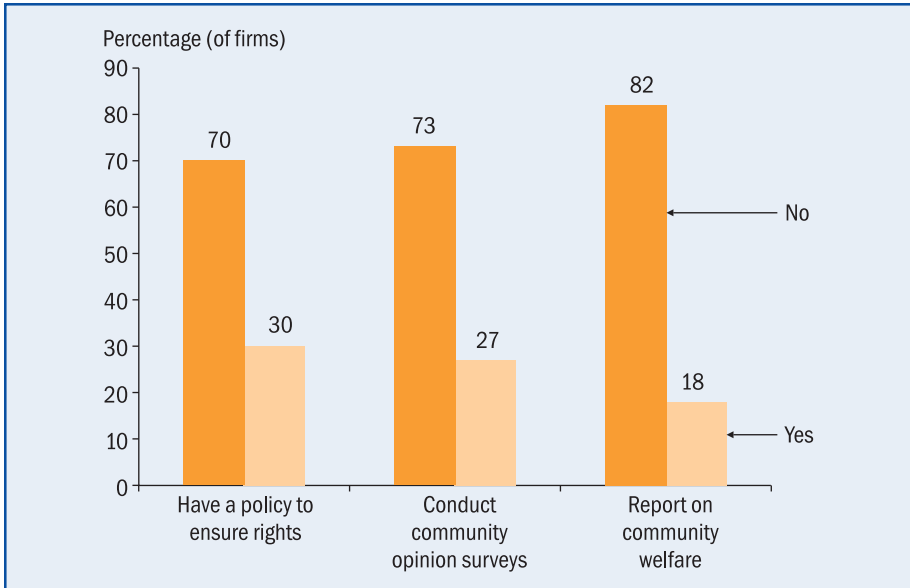
### *How well do companies support the community?*

Community partnership activity is a novel concept for most firms in Sri Lanka. While some appear to be aware of a responsibility to support and invest in their communities, most do not commit to this. The small minority of companies, who subscribe to the idea of community

welfare, tend to practice social philanthropy by providing scholarship awards to universities, donations to hospitals, and donations to communities adversely affected, for example, by drought. Only 27% of the companies stated that they conduct community opinion surveys and 18% stated that they report on community welfare in their annual reports and company news bulletins. Just under half the companies tended to recruit staff and make purchases from the local community. Other firms had no clear policy on supporting their local communities in an economic sense (Figure 9).

When company plans have a potential effect on the local community, just 33% of companies stated that they have a formal policy for prior consultation with their communities. It would appear that NGOs and other community groups are not particularly active in enforcing corporate accountability to their local communities. Just 9% of the firms stated that they were targeted by civil society groups, for policies or plans that affected the wider community. The issues that most affected local communities tend to be environmental, such as the disruption of the ecological balance, toxic waste emissions, and water and air pollution.





**Figure 9** Factors to ensure rights and needs of the communities

A few firms encourage their employees to engage in community activities. Examples of this include fundraising for local cancer hospitals, campaigns to channel aid to drought-affected areas, organization of and support to peace marches and rallies in favour of the recent government peace initiative, and assistance to disabled soldiers.

### *Are environmental protection policies and practices in place?*

Two-thirds of the companies surveyed had neither any policies nor

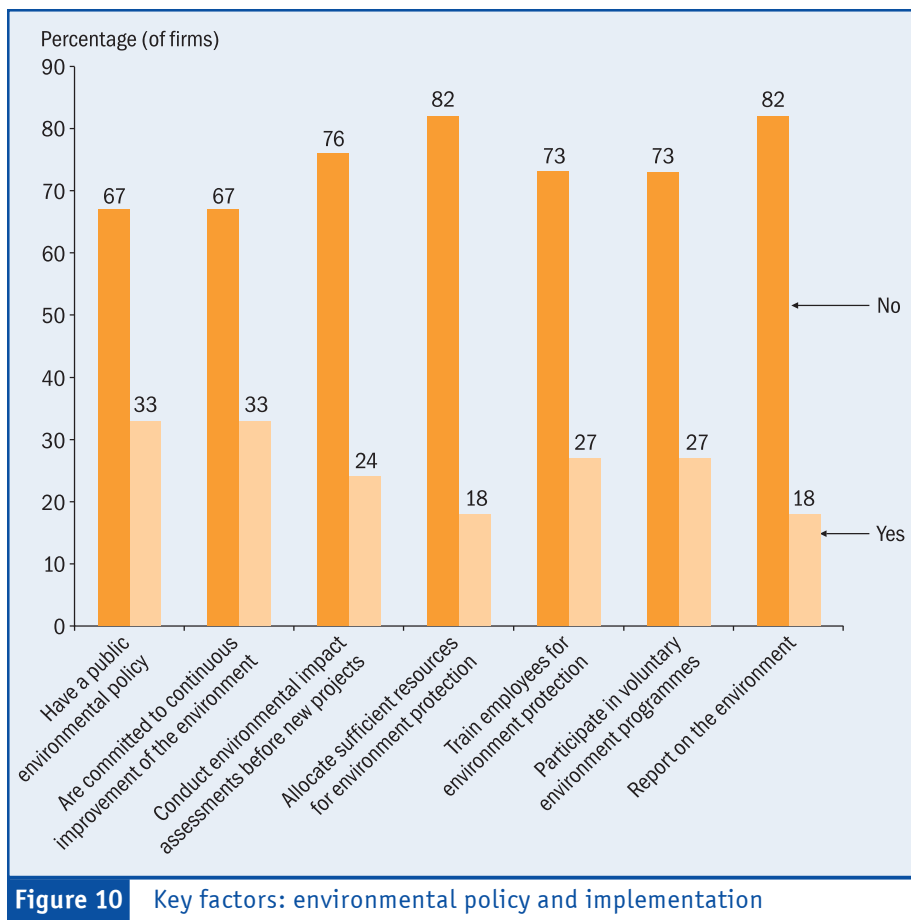
any practices in place to suggest an awareness or sense of responsibility for the environment. Environmental regulations do exist in Sri Lanka but are often violated by companies. The media tends to report on these violations when the lives and livelihoods of local people are affected.

One-third of the companies surveyed have a public environmental policy, and a similar proportion has policies that commit to continuous improvement on environmental practices. About 27% of the companies train employees on environmental

protection and participate in voluntary environmental programmes; 24% of the companies have a board director responsible for environmental issues; and 18% believe that they set aside adequate resources for environmental protection and

publish environmental reports (Figure 10).

Most companies do not have an overall environmental management system. Only 25% of companies stated that they had such a formal system. None of the firms surveyed



had obtained ISO 14000 or Eco-Management and Audit Scheme accreditation. Around 30% of the companies appear to have a policy of minimizing and preventing waste. There is almost no awareness of the need to conserve water. Most companies do not see water as a scarce resource and therefore have no policies or practices to prevent water wastage. The larger companies do not practise material recycling or the usage of recycled materials. A few small firms operating in niche markets appear to have some initiatives on using recycled materials.

In terms of managing and minimizing the environmental risks associated with goods and services produced by the firms, just 24% of the companies stated that they had appropriate policies in place. About

33% have programmes promoting designs for the environment, covering energy, materials, toxic reduction, recyclables etc. None of the firms surveyed had quantified the market benefits of environmentally preferable products, and 30% stated that they regularly reported to consumers on environmental risks, and provided instructions on safe disposal of material. None of the firms surveyed appeared to have faced any legal action relating to a breach of environmental regulations.

Meanwhile, two Sri Lankan hotels were recently awarded the prestigious Green Globe award for sustainable tourism. The Kandalama Hotel received this accolade in 1999 and has recently obtained ISO 14001 accreditation. In 2001, the award was won by The Deer Park Hotel. ☘

## 3 Conclusions and next steps

**T**his survey has revealed a number of areas where there is considerable scope for improving CR practices in Sri Lanka.

### **Lack of understanding and awareness of corporate responsibility**

A significant finding of this survey is the need for training and development to counter the lack of understanding and awareness of the broader stakeholder approach to CR. The historical and social reasons for this include the relatively small size of the private sector, a feudal culture of management resulting from a colonial past, and a massive disparity in income levels between executive management and shareholders and workers. The serious political upheaval and civil war of the past two decades has also resulted in other significant humanitarian and social problems that have

perhaps necessitated attention and action to be focused on perpetrators of humanitarian abuses other than the corporate sector. For example, the recruitment of child soldiers and child abuse are issues that have been highlighted in the local and foreign press.

Nevertheless, there is significant opportunity to educate and raise awareness on CR, at least in terms of a traditional business perspective, so as to meet the requirements of international buyers of Sri Lankan goods. The importance of export-oriented business for the Sri Lankan economy is critical. There is also potential for Sri Lankan corporates to improve their local reputation through CR initiatives. The need to educate and establish such practices is perhaps most urgent due to the political nature of the corporate sector. It could be considered particularly useful to

have external guidelines and enforcement of CR to counter the corporate sector's inherent tendency for political manoeuvring, in a country subject to high political risk.

### **Room for improved enforcement of national labour policies and worker rights**

This survey also indicates a problem with the enforcement of labour rights in Sri Lanka. The checks and balances in the form of due legal process and trade unionism, for example, to help protect and defend the rights of workers, appear to be ineffective, thwarted, or actively discouraged in Sri Lanka. While the issues with Sri Lanka's legal process will take time to resolve, a stakeholder approach to building employee relationships based on employee participation in policy- and decision-making can mutually benefit both the employees and the management. Raising awareness of employee rights and training in building mutually beneficial employee-management working relationships could provide significant benefits without having to resort to labour policy enforcement. This could be an important initial step in forging responsible relationships

based on mutual respect and cooperation rather than suspicion.

### **Civil society in the initial stage of understanding corporate responsibility**

The perspectives elicited from Sri Lankan civil society in this survey suggest that the concept of civil activism has possibly been thwarted by two decades of politicization and control. Civil society is, understandably, mainly focused on significant concerns arising directly and indirectly from the civil war. There is an opportunity to increase awareness of the role of civil society in encouraging and initiating local CR practices. Opportunities for mutually beneficial partnerships between corporates and NGOs also ought to be explored.

### **Limited understanding of sustainable development and links to corporate responsibility**

The survey indicates that there is scope to increase education and training on sustainable development in the context of CR. The benefits of, and the necessity for, sustainable development needs to be encouraged across all sectors in Sri Lanka, and not, as it is perhaps

perceived today, as an attractive feature for the hotel industry which attracts international awards and attention, and commands premium prices.

A United Nations Environment Programme report in 2001 highlighted the five top areas of environmental concern in Sri Lanka: (1) land degradation by soil erosion, (2) waste disposal, (3) pollution of inland waters, (4) biodiversity loss, and (5) depletion of coastal resources. An analysis and training programme for corporates and civil society representatives on how companies can effect improvement in

these areas through sustainable practices, could serve as an initial kick-start into action in this area.

### Next steps

This report has served to highlight some key areas that require the attention of managements, workers, civil society, and the government in order to improve the effectiveness and scope of CR in Sri Lanka. There is considerable potential for collaborative action and capacity building at the local level to introduce and sustain the agenda for CR in Sri Lanka. ☘

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